MICHIGAN FOREST FINANCE AUTHORITY DRAFT BOARD MEETING MINUTES April 12, 2006

A Board meeting of the Michigan Forest Finance Authority ("Authority") was held on April 12, 2006, at 2:00 p.m. at the Bond Finance Conference Room, 1st Floor Treasury Building, Lansing, Michigan.

MEMBERS PRESENT

Cynthia Faulhaber (representing State Treasurer) (Chair)
Rebecca Humphries, Director, Department of Natural Resources (DNR) (Vice Chair)
James Smiertka (representing Robert Swanson, Director, Labor & Economic Dev.)
Paul Eisele
Garret Johnson
Kelvin Smyth
Warren Suchovsky
Shaw Hagan
Karen Potter-Witter

OTHERS PRESENT:

Terrence P. Grady, Attorney General's Office Lynne Boyd, Chief, DNR, FMFM Ron Murray, DNR, FMFM George Bergmon Thomas Letavis

CALL TO ORDER

Cynthia Faulhaber, Chair, called the Board meeting of the Authority to order at 2:00 p.m., welcoming Board members and audience to the meeting. The Secretary took roll call. All members were present, except Dr. Karen Potter-Witter. Dr. Potter-Witter joined the meeting shortly after the roll call.

APPROVAL OF AGENDA

Chair Faulhaber asked for approval of the Agenda.

MOTION: Mr. Johnson moved, seconded by Mr. Hagan, to withdraw Resolution No. 2006-2 from the Agenda, his concerns having been stated. All in favor by voice vote.

MOTION: The Chair, without objection, added Board Housekeeping – Travel, to the Agenda. The Agenda as amended was approved unanimously.

APPROVAL OF MINUTES

MOTION: Dr. Potter-Witter moved, seconded by Mr. Suchovsky, to approve the Minutes of the March 8, 2006, meeting. All in favor by voice vote.

FOREST DEVELOPMENT FUND TODAY – FMFM OPTIMAL BUDGET

Lynne Boyd, Chief, Department of Natural Resources (DNR), Forest, Mineral & Fire Management (FMFM), was recognized for a presentation of the Forest Development Fund and FMFM Budget. Copies of the presentation were provided in the meeting packet (see attached).

Ms. Boyd's presentation began with a pie chart illustrating the Total Appropriation for FY 05-06 of \$43,755.0 (in thousands), with Forest Development Fund's \$26,610.0 being the largest portion.

Ms. Boyd explained that the Forest Development Fund (FDF) consists of revenues collected from the sale of timber products, and funds forest management programs in a manner prescribed by the DNR.

Ms. Boyd reviewed funding descriptions for other appropriations, including, General Fund, Federal – DAG – FS, Snowmobile Trail Improvement, Game & Fish – GP, Other, Forest Recreation Fund, Natural Resources Trust Fund, Private, and Park Endowment Fund.

The Forest Development Fund Appropriations FY 05-06 was illustrated in a pie chart, with the largest portion being \$21,958.7 for Forest & Timber Treatments. Other appropriations include: Forest Management Planning, Forest Fire Protection, Forest Fire Equipment, Cooperative Resource Programs, Forest Management Initiatives, Minerals & Land Management, Adopt a Forest, and Forest Recreation.

The Game & Fish Protection Fund Appropriation FY 05-06 (\$1,605.8) was also represented in a pie chart, showing State Forest Management, \$720.1, as the largest portion. These funds are used to manage the game and fish acquired lands in the State Forests (approximately 887,800 acres.). The Game & Fish Protection Fund is made up of revenue obtained through hunting and fishing licenses, and provides financial support for statewide hunting and fishing programs. Federal law requires that funds derived from game and fish licenses stays with this fund. Other appropriations include Mineral Management, Estimated Lapses, and Fire Prevention/Suppression.

Lastly, Ms. Boyd presented FMFM's Optimal Budget Request of \$10,511,700 (\$4,761,400 –salaries & wages; \$2,125,000 CSS&M; and \$3,625,300 –on-going capital outlay), and 55 full-time positions (19 Land Mngt, 17 Resource Protection, and 19 Forest Recreation). "Optimal Budget" refers to the budget level needed to provide

strengthened forest resource management under current social, political, economic, and biological conditions.

Ms. Boyd welcomed questions from the members and audience regarding her presentation and discussion ensued.

Mr. Hagan asked how the distribution of the gas tax worked into the budget charts, and Ms. Boyd offered to email charts to Mr. Hagan.

Mr. Suchovsky inquired about the type of aircraft used for the fire fighting mission and whether DNR used the water surging type. Ms. Boyd responded DNR aircraft is not the water surging type, but conducts flights that reinforce prevention and suppression activities by ground firefighting units by reconnaissance, surveillance, etc. Ms. Boyd further added that FMFM spends more than indicated in the presentation because of fire fighting efforts, and usually asks for supplemental funding. The DNR fights only wildfires, no structural fires; those fires are fought by local fire departments. Therefore, wildfires could involve a number of agencies working together.

Mr. Eisele asked if Ms. Boyd's projections included the \$26 million tobacco settlement funds anticipated being moved to FDF. Director Humphries indicated that Ms. Boyd's projections do not include these funds, and represent the operating funds for FY 06.

Mr. Johnson asked if FMFM keeps a cushion in its budget for fire fighting and if DNR has the authority to move funds to cover costs in a case of catastrophic fire. Ms. Boyd indicated that DNR takes money from its operating budget to fight fires and then requests supplemental funding.

Referring to the Resource Protection Budget, Ms. Boyd informed the Authority that DNR is looking at rebuilding Roscommon Equipment Center. This facility is a unique facility nationwide -- It designs and develops fire fighting equipment for wildland fire fighters, frequently making use of modified army surplus vehicles. This type of fire fighting equipment is very expensive to design and develop, and not like other types of typical fire trucks, but consists of tankers, plows, and bulldozers used for forest fires, establishing fire lines, etc. The Keymen program uses seasonal workers from local fire departments to supplement the DNR fire crew.

Mr. Eisele asked Ms. Boyd to explain how the cooperation between states works in regard to fire fighting. Ms. Boyd pointed out there are three gains for the State in cooperation: 1) Reimbursement of 100% by the federal government; 2) Opportunities for training of our own fire fighters; 3) Support from other states, if we need to call upon them. One downside is that it can affect us at home to get the job done, if not carefully managed. Therefore, DNR has a backup system in place. The DNR does not usually send managers to out-of-state fires. During times when some fire staff may be on cooperative assignment out-of-state and at other peak fire fighting times, cooperation on in-state fire fighting involves DNR foresters, technicians, fish biologists, wildlife biologists, etc, dropping all they are doing and fighting fires, as needed, which is built

into the work plan. Fires are often fought on overtime due to the time of day fires usually occur and the other duties staff are required to keep up-to-date.

Mr. Suchovsky asked Ms. Boyd to explain the "Greening Up Concept". Ms. Boyd explained that DNR field staff is gradually moved North as the land "greens up", and fire equipment is staged in key areas to fight fires if necessary. Last year, the entire State greened up all at once, so this tactic was not possible, or necessary.

Ms. Boyd added that the Adopt-a-Forest Fund is the best \$25,000 spent, as it uses 1,000 volunteer groups to do various activities such as cleanup within State Forests. There may be a specialty license plate coming out soon to help fund this initiative.

Mr. Johnson asked Ms. Boyd to expand on what is included in the CSS&M item of the budget. Ms. Boyd explained CSS&M (Contractual Service, Supplies, & Materials) includes computers, office expenses, utilities, supplies, telephones, contracts. Director Humphries explained that this number appears high for the fire program due to the fact that it costs more to be on the landscape with vehicles, etc., and equipment and operating costs are high and rising with inflation. Mr. Murray added that the type of equipment required to fight wildfires is very specialized and expensive.

Mr. Suchovsky asked whether the Game & Fish Fund is headed for trouble in the future. Director Humphries indicated that it may be due to increases in wages and benefits, inflation and rising costs. Director Humphries added that a workgroup will be looking at the license fees this fall.

Director Humphries also added that although the DNR has had a 1/3 cut in staffing in the past 15 years, production has increased due to technology and process engineering. Ms. Boyd added that although the computer network needs improvement, the increase in production is to DNR staff's efficient use of technology such as GPS, cell phones, and computers.

Mr. Hagan indicated that in using IFMAP, there is no adequate hardware in place in some of the field offices to handle this technology. Ms. Boyd indicated that DNR is working with the Department of Information Technology (DIT) to handle the network issue.

Ms. Boyd pointed out there are only 33 staff in the Recreation section, with growing needs for maintenance of campgrounds and trails, which are the background for hunting and fishing activities.

Mr. Suchovsky asked if some costs could be leveraged to the private sector, such as road building. Ms. Boyd indicated the DNR cannot barter, but they can design a bid process to include some road work, but this reduces incoming revenues. Director Humphries said this bid process could be used in minor work.

In closing, Ms. Boyd advised the Board that the DNR wants to improve on the efforts they are already doing, and the \$26 million in tobacco settlement proceeds would allow activities to be done further and faster.

STATUS OF TOBACCO FUNDS SECURITIZATION

Chair Cynthia Faulhaber distributed the following documents (see attached):

- 1) Bill Analysis for HB 5109-Michigan Trust Fund Act, HB 5048-Michigan Tobacco Settlement Finance Authority Act (proposed), HB 5047 SB 533 SB 359-Strategic Fund Act, SB 298-Business Corporation Act, SB 521 HB 5216-Income Tax Act, and HB 5215-Single Business Tax Act
- 2) Illustration of Senate Securitization Proposal
- 3) MTSFA Bond Issuance Process
- 4) Program Overview
- 5) Program Objectives
- 6) Tobacco Securitization Process
- 7) Flow of MSA Payments After Sale
- 8) Tentative Schedule.

Chair Faulhaber explained the Strategic Fund Board will direct the Department of Treasury to dispense the \$26 million of tobacco settlement revenue, which has already been appropriated. She added that at this time, there is no process in place, but a meeting of involved parties is scheduled soon.

Chair Faulhaber stated that a Plan of Finance for bonds may include:

- Current interest bonds fixed rate
- Capital appreciation bonds appreciate in future
- Variable rate bonds based on LIBOR, and convertible to tax exempt.

The anticipated price for the bonds is 7.5% variable rate. Mr. Murray indicated that the Board previously conducted analysis of FFA investments which resulted in a \$5 million year max investment.

Chair Faulhaber referred Board members to Illustration of Senate Securitization Proposal, reviewing each step in the proposal process.

Chair Faulhaber also referred members to the MTSFA Bond Issuance Process, pointing out that the five steps in the left column have occurred, or are in the process of occurring by April 20, 2006. Funds should be available to the Authority by mid-May.

FOREST MANAGEMENT ADVISORY COMMITTEE/MICHIGAN FOREST FINANCE AUTHORITY RELATIONSHIP AND COORDINATION

Ms. Boyd distributed Forest Management Advisory Committee, Purpose of the Committee; and Member List (see attached).

Ms. Boyd explained the Authority was established in the State with the ability to bond, whereas the Forest Management Advisory Committee (FMAC) advises the Director of the DNR. The FMAC can feed into the Authority, and visa versa. The FMAC's Subcommittees are currently working on developing generally accepted forest management principles per the Right to Forestry Act. The Natural Resources Commission by statute, will be the decision maker on the principles.

Mr. Suchovsky sits on both the Authority and FMAC, which is an advantage in that he can report back to each committee. Mr. Murray indicated that our desire is the keep apprised of activities in both committees. Ms. Boyd noted the FMAC will delve into the area of Limiting Factors, which may be of interest to the Authority.

Ms. Boyd pointed out to the Authority that the relationship between the Authority and the Forest Management Advisory Committee will be a great benefit for both groups.

ECONOMIC ANALYSIS OF VEGETATIVE MANAGEMENT REGIMES; SCOPING OF NEEDED STUDY

Mr. Murray referred Board members to Economic Analysis of Potential Vegetative Management Regime Investments Scoping of Study Proposal (see attached). This proposal outlines the purpose and details on how the analysis will be conducted.

The purpose of the scoping project is to conduct an economic analysis of vegetative management regimes for forest management on State Forest lands that could offer adequate returns to be attractive investments for the Authority and that are in line with the Authority's investment goals.

The State would provide the vendor with case studies and all other data and documents used in prior analyses. The vendor would provide no investment advice; all tools, etc., and delivery of analysis. Mr. Murray indicated that the timeframe for this analysis is approximately two months.

Mr. Murray gave a demonstration of the Quick-Silver software program that will be used for the analysis. This is a free program that is downloadable from the USDA Forest Service website. Mr. Murray noted that among other regimes, Quick-Silver can analyze returns to multiple partners, marginal cases, and forest health issues.

Mr. Murray further indicated that this analysis is an important and necessary tool for the Authority in making sound investment decisions.

TIMBER & MARKETS SUBCOMMITTEE REPORT

The Minutes of the Subcommittee's March 30, 2006 meeting were provided to the Board members prior to the meeting (see attached).

Mr. Eisele indicated that the Subcommittee agreed that the scoping, described above by Mr. Murray, should be conducted.

At its last meeting, this Subcommittee discussed opportunities for biofuels. Large industrial complexes produce higher quality biofuels. Smaller local installations are more beneficial for production of lower quality fuels and burning wood directly. Burning wood directly has potential environmental problems. Costs for fuels produced from wood are approximately \$2-\$3 range. Any type of wood can be used. There may be barriers of entry into biofuel field more related to business or politics than to science (e.g., Enron scandal has brought scrutiny to energy industries).

Mr. Smyth commented that Mr. Murray shared interesting websites with the Subcommittee which were obtained from the Biofuels and Wood Products Conference II held in March and attended by Cara Boucher, Section Manager, Forest Resource Management, DNR FMFM.

The Subcommittee pointed out a need for Great Lakes Forest Economic & Social Perspective to be presented to the Board soon. It would also be advantageous for a Subcommittee member to attend an industry-sponsored biofuels conference to get a different perspective.

The DNR is trying to document wood-burning/using facilities in the State. Mr. Eisele and Mr. Smyth will report back with more details on a biodiesel facility in Gladstone and an operation by Crystal Flash in west Michigan, Northern Michigan and Central Michigan Universities.

PROTECTION & RESEARCH SUBCOMMITTEE REPORT

Mr. Johnson reported that the Subcommittee met via teleconference. In attendance were Mr. Suchovsky; himself; Cara Boucher, DNR FMFM; and Ronald Swaty. Mr. Hagan was not in attendance.

The Subcommittee developed the following research priorities:

- Wood fiber productivity
- Biological productivity
- Landscape productivity
- Forest Management Practices & Methodology
- Socioeconomics

Mr. Johnson noted the DNR will go back and evaluate its research. The Subcommittee plans to develop communications with stakeholders, informing them of the \$26 million tobacco settlement funds available.

For future meetings, the Subcommittee will arrange speakers on issues such as EAB. Mr. Suchovsky indicated that they will look at how social sciences fit into resource management.

BOARD HOUSEKEEPING - Travel

Mr. Murray distributed the Travel Expense Voucher, W-9 form, and Schedule of Travel Rates (see attached) to the Board. Members are to use the Travel Expense Voucher for documenting expenses incurred while traveling to and from Board meetings. The W-9 form is also required for reimbursement of expenses. Forms should be sent to Mr. Murray, and he will submit to Accounting for reimbursement. Mr. Murray will check on, and report at the next meeting, whether travel expenses are required to be submitted electronically, with reimbursement payments made by the State via electronic funds transfer.

PUBLIC COMMENT

None.

MAY 10, 2006 MEETING AGENDA ITEMS

Add to Agenda:

- Request for Study
- Forest Finance Authority Webpage Mr. Murray

In order to get an Action item on the agenda, you need to submit it to the Chair.

ADJOURNMENT

MOTION: Mr. Eisele moved, seconded by Mr. Suchovsky, to adjourn meeting. All in favor by voice vote.

Meeting was adjourned at 4:30 p.m.

Forest, Mineral, and Fire Management



Presented by Chief Lynne M. Boyd
April 2006

Forest, Mineral and Fire Management

Chief

Administrator 18 State Bureau

Assistant Chief

Administrator 17 State Division

RECREATION and TRAILS SECTION

Section Manager State Administrativ Manager 1

PROGRAM SERVICES SECTION

State Administrativ Section Manager Manager 1

RESOURCE PROTECTION SECTION

Section Manager State Administrative Manager 1 State Administrative UP Field Coordinato

Manager 1

UPPER PENINSULA

LP Field Coordinato
State Administrative Manager 1

LOWER PENINSULA

State Administrativ Section Manager Manager 1

MINERAL and LAND MANAGEMENT SECTION

FOREST RESOURCE MANAGEMENT SECTION

State Administrativ

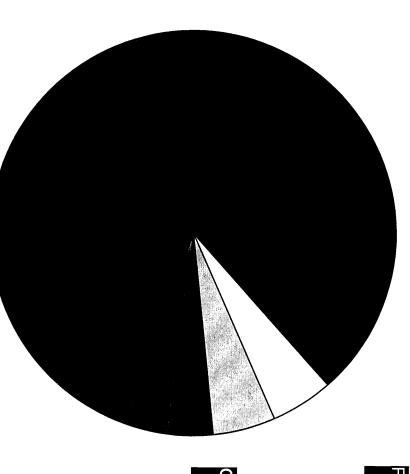
Section Manager Manager 1



Forest, Mineral & Fire Management Total Appropriation FY 2005-2006

General Fund \$5,965.4

Forest Development Fund \$26,610.0



Federal - DAG-FS \$2,243.1

\$2,243.1 Snowmobile Trail Imp Fund \$2,093.5

Game and Fish - GP \$1,605.8

Other* \$1,600.7

Forest Recreation Fund \$1,146.6

Natural Resources Trust Fund \$1,079.7

Private \$877.7

Park Endowment Fund \$532.5

Total Appropriation \$43,755.0

(In Thousands)



Forest Development Fund – revenues collected from the sale of timber products

Fund forest management programs in a manner prescribed by the Department



- General Fund general tax revenue
- Fire prevention / suppression program
- Various private forestland outreach opportunities) programs (as match to leverage these
- Assist in the support of the forest recreation program



- Federal DAG FS Fund federal grant funds from the US Forest Service
- Fire suppression/prevention
- Forest health monitoring/disease control
- Private forestland outreach programs
- Easement acquisition
- Federal excess property acquisition/distribution

- taxes from the Recreation Improvement stickers, and the distribution of gasoline Snowmobile Trail Imp. Fund - snowmobile registration fees, snowmobile trail permit
- Used for the grooming, signing, brushing, snowmobile trails oversight, and administration of Fund



Game and Fish - hunting and fishing license fees

Provide financial support for statewide hunting and fishing programs



Commercial Forest, Air Photo, and Misc Other - ORV, Waterways, Rec Federal Funds Fees, Aircraft Revolving Fund, Signshop, Improvement Fund, Forest Land Use

These smaller funding sources support a variety of FMFM activities



Natural Resources Trust Fund / Park and mineral leases on state lands Endowment Fund - royalties from, oil, gas,

gas, metallic and non-metallic mineral Used to manage the State's active oil and leases

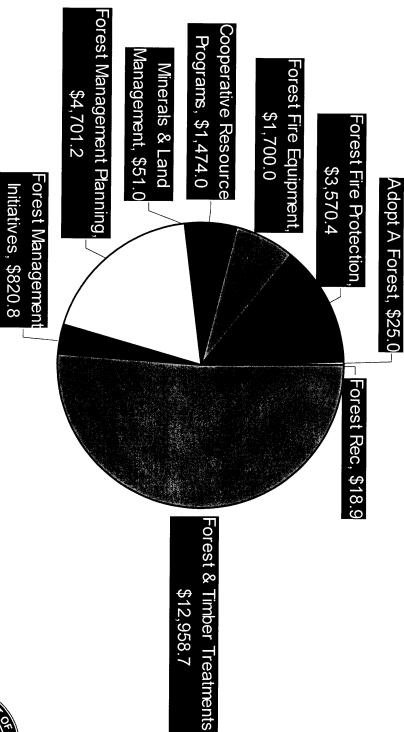


Private Fund – Private donations funding

Consumers Power has been the largest and urban forest outreach programs specific projects consistent donor supporting tree planting



Forest, Mineral, and Fire Management Appropriation FY 2005-2006 Forest Development Fund





- Forest & Timber Treatments commercial treatments \$12,958,700 — Forest certification,
- Forest Management Initiatives \$820,800
- Forest Management Planning development, health monitoring/disease \$4,701,200 - Forest inventory, plan management



- Minerals & Land Management \$51,000 acquisition and disposal encroachments on State forestland, land resolution of trespasses and
- outreach Cooperative Resource Programs – \$1,474,000 - Private lands coordination /
- equipment replacement / updating Forest Fire Equipment — \$1,700,000 - Fire



- Forest Fire Protection \$3,570,400
- Fire prevention and fire suppression on State and privately-owned forestlands
- Fire management planning
- Prescribed burning
- Equipment and facilities maintenance
- State and local fire department use Federal excess property acquisition for

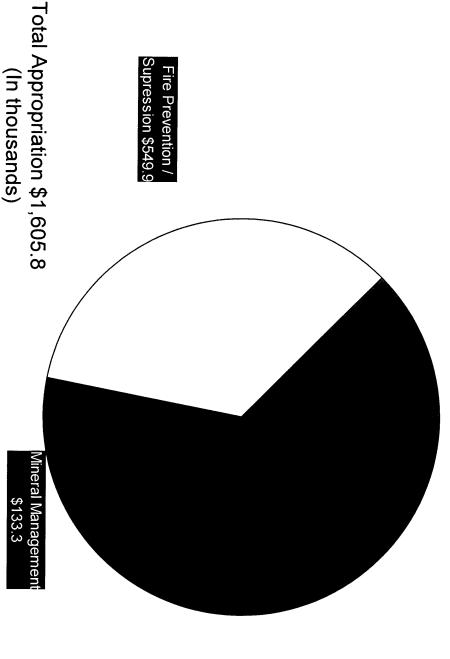
Adopt-A-Forest – \$25,000 – Coordinated forestlands with volunteers to clean up state

Forest Recreation - \$18,900 - will be removed in FY 2007



Forest, Mineral & Fire Management Game & Fish Protection Fund Appropriation FY 2005-2006





State Forest Management \$720.



FY 2006 Game & Fish Funding

- \$720,100 -manage the game and fish acquired lands in the state forests (approximately 887,800 acres
- Compartment review process
- \$133,300 for mineral management.
- \$549,900 for fire prevention / suppression



FMFM Optimal Budget

	Total Request	
Salary and wages	\$4,761,400	
CSS&M	\$2,125,000	
On-going Capital Outlay	\$3,625,300	
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lotal	\$10,511,700	



FMFM FTE Summary

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Total	Land Management	Forest Recreation	Resource Protection	Program
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314.5	162.0	33.0	119.5	Funded FTE's
55	19	19	17	Additional Optimal Budget FTE's
369.5	181.0	52.0	136.5	Total



FMFM Optimal Budget Request

- FMFM has asked for 55 FTE's and \$10,511,700
- Reviews 19 FTE's Land Management – Forest Health, Inventory, Trespass, Easements, Mineral
- 17 FTE's Resource Protection Fire Prevention Management Assistance / Suppression, Recreational Support, Land



FMFM Optimal Budget Request

- campground maintenance increased trail surveillance, program oversight, 19 FTE's Forest Recreation Programs -
- \$3,625,300 for capital outlay improvements



For Additional Information Contact:

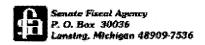
Chief Lynne M. Boyd 517-373-1056 boydlm@michigan.gov



Thank You.

Great Lakes, Great Times, Great Outdoors www.michigan.gov/dnr





IILL ANALYSIS

Tekphone: (517) 373-5383 Fax: (517) 373-1986 TDD: (517) 373-0543

House Bills 5109 (Substitute H-5), 5048 (Substitute H-7), 5047 (Substitute H-11), 5216 (Substitute S-2), and 5215 (Substitute S-2) As Enrolled

Senate Bills 533 (Substitute H-5), 359 (Substitute S-2), 298 (Substitute S-2), and 521 (Substitute S-2) As Enrolled

Sponsor: Representative Rick Baxter (H.B. 5109)

Representative Bill Huizenga (H.B. 5047 and 5048)

Representative David Law (H.B. 5216)

Representative Dave Hildenbrand (H.B. 5215) Senator Valde Garcia (S.B. 533 and 359)

Senator Wayne Kuipers (S.B. 298)

Senator Mike Bishop (S.B. 521)

House Committee: Commerce

Senate Committee: Government Operations

Date Completed: 11-16-05

CONTENT

The securitization agreement includes bills that would securitize a portion of tobacco settlement revenue, deposit the proceeds in a trust fund, and allocate the proceeds for investments in private companies, grants, and loans for competitive edge technology and loan enhancement programs. The package also would make appropriations and amend the Income Tax Act, Single Business Tax Act, and Business Corporation Act. This summary highlights the following bills:

Bill	Act
House Bill 5109	Michigan Trust Fund Act
House Bill 5048	Michigan Tobacco Settlement
	Finance Authority Act (proposed)
House Bill 5047	Strategic Fund Act
Senate Bill 533	
Senate Bill 359	·
Senate Bill 298	Business Corporation Act
Senate Bill 521	Income Tax Act
House Bill 5216	
House Bill 5215	Single Business Tax Act

Attachment 1 illustrates the mechanics of the securitization proposal.

House Bill 5109 (H-5) - Michigan Trust Fund Act

The bill would repeal sections of the Act that establish the Michigan Tobacco Settlement Trust Fund. The bill would create the 21st Century Jobs Trust Fund to receive the net proceeds of the sale of tobacco settlement revenue. The bill also would allocate \$75.0 million of tobacco settlement revenue to the 21st Century Jobs Trust Fund each year from FY 2007-08 to FY 2014-15 for a total of \$600.0 million. The State Treasurer would direct the investment of the 21st Century Jobs Trust Fund. Disbursements from the Fund would be made by the State Treasurer pursuant to appropriations to the Michigan Strategic Fund. Interest earnings on the 21st Century Jobs Trust Fund would be deposited into the General Fund.

The authority for the Michigan Merit Award Trust Fund in the Michigan Merit Award Act would be repealed and recreated in the Michigan Trust Fund Act. The bill also would repeal language in the Michigan Merit Award Act that specifies the percentage of tobacco settlement revenue allocated annually to the Michigan Merit Award Trust Fund. It specifies that any tobacco settlement revenue received by the State that has not been sold to the Tobacco Settlement Finance Authority or distributed to the 21st Century Jobs Trust Fund would be allocated to the Michigan Merit Award Trust Fund.

House Bill 5048 (H-7) - Michigan Tobacco Settlement Finance Authority Act

The bill would create the Michigan Tobacco Settlement Finance Authority, an independent public body within the Department of Treasury. The Authority could issue bonds that would be special revenue obligations secured by a pledge of the tobacco settlement proceeds.

The Authority would acquire rights to the State's tobacco settlement proceeds by purchasing them. Under the bill, the State Budget Director, with the approval of the State Administrative Board, could sell to the Tobacco Settlement Finance Authority all or a portion of the State's tobacco receipts. The sale would be constructed to provide net proceeds to the State in the amount of \$400.0 million, for deposit in the Michigan 21st Century Jobs Trust Fund and in a reserve fund. The bill also provides that, as an alternative, the State Budget Director, with the approval of the State Administrative Board, could sell all or a portion of the State's tobacco receipts to a person or persons other than the Authority, if the sale would result in net proceeds of not more than \$400.0 million and the terms would be more favorable to the State than a transaction through the Authority. The Authority Board would have an independent financial advisor to assist the Authority Board.

The Authority would be directed by a seven-member board of directors consisting of the following members:

- -- The State Treasurer, who would serve as chairperson;
- -- The Director of the Department of Labor and Economic Growth (DLEG);
- -- Three members with business or financial knowledge, skill or experience, appointed by the Governor with the advice and consent of the Senate;
- -- One member with business or financial knowledge, skill or experience, selected by the Governor from a list of two or more nominees provided by the Majority Leader of the Senate; and
- -- One member with business or financial knowledge, skill or experience, selected by the Governor from a list of two or more nominees provided by the Speaker of the House.

The bill would provide for the manner of issuance of the bonds. The Authority would be required to involve at least two financial institutions or brokerage firms, including at least one that is chartered in Michigan, has at least one-third of its branch offices located in Michigan, and has at least one-quarter of its employees in Michigan in marketing and underwriting the bonds.

The Authority would be permitted to contract for legal, financial, and technical services, and employ temporary and permanent personnel. The bill would appropriate \$1.0 million from the General Fund for FY 2005-06 to pay the operating expenses of the Authority and fund any reserve requirement. These funds, if not spent by the end of the fiscal year, would be carried forward by the Authority.

The Authority would have to report on its activities annually by March 1.

Senate Bills 533 (H-5) and 359 (S-2) and House Bill 5047 (H-11) - Michigan Strategic Fund Act

The bills would transfer the Michigan Strategic Fund from DLEG to the Department of Treasury, where it would be an autonomous agency, exercising its statutory functions independently of the State Treasurer.

The Strategic Fund board of directors would oversee the programs financed by the tobacco settlement securitization. Membership on the board of the Strategic Fund would be the same as the current Strategic Fund board with several exceptions. Currently, not more than two of the seven appointed members may be State employees. Under the bill, none of the nine appointed members could be State employees and five would have to be members of the private sector.

The Governor would have to appoint one private sector member to represent persons with private sector experience in private equity, venture capital, commercial lending, or commercialization of technology, from a list of three or more nominees submitted by the Speaker of the House of Representatives. Similarly, the Governor would appoint one private sector member from a list provided by the Majority Leader of the Senate.

The Chief Executive Officer of the Michigan Economic Development Corporation (MEDC) would be included as a member of the board.

The bills would add experience requirements for board members, requiring that after December 31, 2005, at least two of the members of the board have experience in private equity or venture capital investments, at least one member have commercial lending experience, and at least one member have experience in commercialization of technology.

The size of the board would be increased temporarily by two. By December 15, 2005, the Governor would be required to appoint, with the advice and consent of the Senate, two additional members with experience in private equity or venture capital investments, commercial, lending or commercialization of technology, temporarily increasing the size of the board from nine to 11 members for the period from December 15, 2005, to December 31, 2007.

The Strategic Fund would be required to operate programs related to 21st century investments as follows:

- -- Private equity investments under a Private Equity Investment Program. The program would invest in or with a private equity fund meeting certain criteria with regard to presence and participation in Michigan projects and amount of capital at-risk.
- -- Venture capital investments under a Venture Capital Investment Program, 80.0% of which would be for competitive edge technology consisting of life sciences technology; advanced automotive, manufacturing, and materials technology; homeland security and defense technology; and alternative energy technology. The Venture Capital Program would invest in or alongside a venture capital fund that met criteria with regard to the amount of capital at-risk, Michigan office, in-State investments, and coordination with the Michigan Early State Venture Investment Program.
- -- Mezzanine investments (those in a qualified mezzanine fund, a person or entity making loans or investments ranging in size from \$250,000 to \$6.0 million) under a Mezzanine Investment Program.

The Strategic Fund would be permitted to offer commercial loan guarantees under a Loan Enhancement Program and would be required to conduct a Small Business Capital Access Program.

The Strategic Economic Investment and Commercialization Board (formerly the Technology Tri-Corridor Steering Committee and the Life Sciences Steering Committee) would be created within the Strategic Fund to award, on a competitive basis, grants, and loans for competitive edge technology (as discussed below). The Strategic Economic Investment and Commercial Board would be advised by an independent peer review expert.

Limits on Allocations

The Strategic Fund board would allocate funds pursuant to appropriations for investments and grants within the annual limits established by the bills as follows:

- -- Not more than 25.0% for the loan enhancement program.
- -- Not more than 40.0% for the investment programs including the private equity investment program, the venture capital investment program and the mezzanine investment program.
- -- Not more than 70.0% for competitive edge technology grants and loans.
- -- Not more than \$100.0 million for basic research over the life of the program.
- -- Not more than 4.0% for administration; however, administrative costs are capped at 3.0% unless a 2/3rds vote of the Fund board authorizes the additional 1.0%.
- -- Not more than 5.0% for marketing and business development activities. At least 80.0% of these funds must be targeted to businesses or entities outside of Michigan.

Appropriations

House Bill 5047 (H-11) would require the State Treasurer, upon request by the board of the 21st Century Jobs Fund and pursuant to appropriation, to transfer money from the 21st Century Jobs Trust Fund to the Strategic Fund for allocation by the Strategic Fund board.

The bills would provide for the appropriation of the \$400.0 million securitization proceeds from the 21^{st} Century Jobs Trust Fund to the Strategic Fund in FY 2005-06. Of this amount, the following specific allocations would be made:

- 1. <u>Life Sciences Technology</u>. \$90.0 million would be allocated as follows: \$40.0 million in FY 2005-06 and \$50.0 million in FY 2006-07.
- 2. <u>Michigan Forest Finance Authority</u>. \$26.0 million would be granted to this Authority.
- 3. <u>Defense Contract Coordination Center.</u> \$10.0 million would be used to develop a program to assist Michigan companies in obtaining Federal contracts from the U.S. Departments of Defense and Homeland Security. Up to half of the \$10.0 million could be used for low-interest loans to expand manufacturing operations if necessary to fulfill Federal contracts. Loan repayments would be made to the Investment Fund.
- 4. <u>Van Andel Institute</u>. \$3.0 million would be allocated for a grant for a good manufacturing facility at the Van Andel Institute.
- 5. <u>Core Technology Alliance</u>. \$1.0 million to implement a grant program for early drug discoveries.
- 6. <u>Capital Access Program</u>. \$3.5 million to implement this program.
- 7. <u>Automotive Technology Business Accelerator</u>. \$6.0 million for research and commercialization of innovative technologies, international business development, and outreach and growth of technology-based businesses and professionals.
- 8. <u>Michigan Film Office</u>. \$2.0 million to promote filming of motion pictures in Michigan. The funds would be used for a study to determine Michigan's status within the film industry and recommend improvements needed to attract motion picture projects, marketing Michigan as a location for filming movies and other projects, and supporting job training of film and media technicians.

- 9. <u>Technology Transfer</u>. \$2.0 million for transfer of competitive edge technology from universities to the private sector.
- 10. Michigan Promotion Program. \$15.0 million for additional tourism advertising.
- 11. <u>Agriculture Development Fund</u>. \$10.0 million would be granted to this fund for grants and loans. At least \$5.0 million would be awarded for grants and loans for specialty crops. No funds could be spent until after April 1, 2006.
- 12. <u>Administrative costs</u>. Not more than 4.0% or \$16.0 million for the administration of economic diversification programs. A two-thirds vote of the Fund board would be required to spend more than the first \$12.0 million.
- 13. <u>Business Development and Marketing</u>. Not more than 5.0% or \$20.0 million for business development and marketing expenses. At least 80.0% of these funds would have to be targeted outside of Michigan.
- 14. Other Expenditures. Remaining funds of up to \$195.5 million would be allocated by the Strategic Fund board for the loan guarantees (if operated), the Small Business Capital Access Program, private equity investment program, venture capital program, mezzanine investment program, and grants and loans for competitive edge technology. Funds allocated in FY 2005-06 but not spent, would be considered work projects and carried forward.

The bills earmark \$30.0 million for competitive edge technology for five years from FY 2007-08 through FY 2011-12.

Jobs for Michigan Investment Fund

The Jobs for Michigan Investment Fund, also referred to as the Investment Fund, would be created within the State Treasury as a "permanent fund". The Investment Fund would consist of appropriations from the 21st Century Jobs Trust Fund, earnings or loan repayments from programs conducted by the Strategic Fund, and payments due to the MEDC from loan or equity investments related to life sciences programs. Interest earnings on the Investment Fund would remain in the Fund at year end.

The Strategic Fund would use the Investment Fund to diversify the economy, retain or create jobs, increase capital investment, increase commercial lending, and encourage the development and commercialization of competitive edge technologies.

The Strategic Fund board would direct the investment of money in the Jobs for Michigan Investment Fund. It could contract with the State Treasurer for assistance in administering the Fund. Money not invested by the Fund could be managed by the State Treasurer as part of the common cash fund. The Strategic Fund could not use the funds to purchase or improve real property; however, recipients of expenditures or investments would be permitted to use funds for those purposes. Certain types of investments would be prohibited.

Strategic Economic Investment and Commercialization Board

The Strategic Economic Investment and Commercialization Board, or Commercialization Board, would be created as an independent entity within the Strategic Fund. The Board would have to use a competitive process to award grants and loans for competitive edge technology projects likely to create jobs in Michigan. The grants and loans could be awarded for basic research, applied research, university technology transfer, and commercialization of products and services. Only Michigan institutions of higher education and Michigan research institutions, and Michigan nonprofit corporations would be eligible for grants.

The Commercialization Board would be required to allocate at least \$40.0 million in FY 2005-06, \$50.0 million in FY 2006-07, and \$30.0 million annually in FY 2007-08 through FY 2011-12 for life sciences. Not more than \$100.0 million over the life of the program could be allocated by the Commercialization Board for basic research.

All applications would have to be reviewed by independent peer review experts for scientific, technical, and commercial merit, personnel expertise, and the ability to leverage additional funding. The grant process also would consider the economic diversification and job creation potential of the project; an out-of-state business's presence in Michigan; the ability of the project to meet measurable goals, the ability to generate revenue within two years; and the involvement of experienced investors and managers.

The Board would have 19 members, consisting of:

- -- The Director of the Department of Labor and Economic Growth.
- -- The State Treasurer.
- -- Seven members representing business, with related business, technology or finance experience, appointed by the Governor with the advice and consent of the Senate.
- -- One representative of the Van Andel Institute, appointed by the Governor with advice and consent of the Senate.
- -- Five designated university representatives, including one from each of the following: Michigan State University, the University of Michigan, Wayne State University, Western Michigan University, and Michigan Technological University, appointed by the Governor with the advice and consent of the Senate.
- -- One representative from a university not listed above, appointed by the Governor with the advice and consent of the Senate.
- -- One representative from Automation Alley, appointed by the Governor with the advice and consent of the Senate.
- -- One member with relevant business, technology or finance experience appointed by the Governor from a list of at least two nominees selected by the Majority Leader of the Senate.
- -- One member with relevant business, technology, or finance experience appointed by the Governor from a list of at least two nominees selected by the Speaker of the House.

The Strategic Fund board would be required to hire a fund manager to oversee the private equity investment program and the venture capital investment program.

The Office of the Chief Compliance Officer would be created within the Strategic Fund. The State Administrative Board would appoint the chief compliance officer who would help ensure ethical conduct of board members, employees, and agents, and assist with the monitoring and implementation Strategic Fund board policies.

The bill would require the Auditor General to conduct an annual financial audit of the Michigan Strategic Fund and related funds, an annual financial post audit, and a performance post audit at least every three years beginning May 1, 2007. The cost of an independent public accounting firm employed by the Auditor General to conduct audits would be funded by appropriations from the 21st Century Jobs Trust Fund. The Strategic Economic Investment and Commercialization Board and the Michigan Strategic Fund would be required to report annually on the grants or loans made, including recipients, amounts, and types of funds, and detailed information on jobs, commercialization, business start-ups, and related information. The Michigan Strategic Fund also would be required to report annually on private equity, venture capital fund, and mezzanine investments and loan enhancement programs, and make recommendations for program modifications, if necessary.

Senate Bill 359 (S-2) - Michigan Life Sciences Pipeline

The bill would require the Michigan Strategic Fund to create a Michigan Life Sciences Pipeline to promote the development of businesses providing goods and services related to the development and commercialization in the life sciences. The pipeline would have to be operational by June 1, 2006. The pipeline would be required to:

- -- Recruit Michigan-based companies involved in life science research and commercialization to affiliate themselves with the pipeline.
- -- Market the services of Pipeline members to develop business for them.
- -- Otherwise assist Pipeline members to develop life science research and commercialization in Michigan.
- -- Maintain and make available a list of Pipeline members.
- -- Charge members a reasonable fee for services provided, at the discretion of the Pipeline.
- -- Encourage recipients that receive funding from the 21st Century Jobs Trust Fund that were involved in the development or commercialization of life sciences to use services provided by a member of the Pipeline.

The bill also would require the Fund to issue a request for proposal for administration of the Pipeline and would place minimum requirements to be included in the proposal. The Fund would be required to enter into a contract of not less than four years with person or entity selected to operate the Pipeline. The bill would require a report from the administrator of the Pipeline, within five years after the bill's effective date, to the Senate and House of Representatives standing committees on Commerce on the effectiveness of the Pipeline in the development of life science research and commercialization in the State.

Senate Bill 298 (S-2) - Business Corporation Act

This bill would amend the Business Corporation Act to reduce the fees charged under the Act for initial organization, admission fees, and organization fees for both domestic and foreign corporations increasing the number of originally authorized shares.

Under the Act, at the time of filing its articles of incorporation, a corporation must pay, as an initial organization fee and an initial admission fee, a fee based on the number of authorized shares. A corporation that increases its authorized shares must pay an additional organization fee based on the increased number of shares.

The bill would reduce the fee amounts based on the number of shares authorized. Tables 1 through $\underline{6}$ below, show the differences between the current fee structure and the one proposed under the bill.

Domestic Corporation Initial Organization and Admission Fees

Table 1

Current Law Public Act 284 of 1972				
Number of Shares Current Fees				
0 to 60,000	\$50			
60,001 to 10,000,000 \$30 per 20,000/max \$5,000.00				
10,000,001 or more \$30 per 20,000/ max \$200,000.00				

Table 2

Proposed Changes in Senate Bill 298 (S-2)					
Number of Shares S.B. 298 Fee					
0 to 60,000	\$50				
60,001 to 1,000,000 \$100					
1,000,001 to 5,000,000 \$300					
5,000,001 to 10,000,000 \$500					
10,000,000 or more	\$500 plus \$1,000 per 10,000,000 over initial \$10,000,000				

Additional Organizational Fees for Increases in Authorized Shares

Table 3

Current Law Public Act 284 of 1972				
Number of Increased Shares Current Fees				
20,000 to 10,000,000	\$30 per 20,000/ max \$5,000.00			
10,000,001 or more \$30 per 20,000/ max \$200,000.00				

Table 4

Proposed Changes in Senate Bill 298 (S-2)					
Number of Increased Shares S.B. 298 Fee					
0 to 60,000	\$50				
60,001 to 1,000,000	\$100				
1,000,001 to 5,000,000	\$300				
5,000,001 to 10,000,000	\$500				
10,000,001 or more	\$500 plus \$1,000 per 10,000,000				

Foreign Corporation Increases in Authorized Shares

Table 5

. 45.00				
Current Law Public Act 284 of 1972				
Number of Increased Shares Current Fees				
20,000 to 10,000,000	\$30 per 20,000/ max \$5,000			
10,000,001 or more	\$30 per 20,000/ max \$200,000			

Table 6

Proposed Changes in Senate Bill 298 (S-2)				
Number of Increased Shares S.B. 298 Fee				
0 to 60,000	\$50			
60,001 to 1,000,000	\$100			
1,000,001 to 5,000,000	\$300			
5,000,001 to 10,000,000	\$500			
10,000,001 or more	\$500 plus \$1,000 per 10,000,000			

The bill is tie-barred to Senate Bills 664, 665, 666, and 667, which would require DLEG to develop processes for electronic filing of business documents with the Department.

Related Taxation Changes

Senate Bill 521 (S-2)

This bill would amend the Income Tax Act to create a new deduction equal to all or a portion of a gain realized from an initial equity investment of at least \$100,000, if the initial

investment plus the gain, or a portion of it were reinvested in an equity investment in a qualified business within one year after the initial gain was realized. This deduction could be claimed for tax years beginning on or after January 1, 2007, and the initial equity investment would have to be made before December 31, 2009. A qualified business would be a business that: 1) is a seed or early stage business as defined in Section 3 of the Michigan Early Stage Venture Investment Act of 2003 (MCL 125.2233); 2) has its headquarters in Michigan, is domiciled in Michigan, and has a majority of its employees working in Michigan; 3) has a pre-investment valuation of less than \$10.0 million; 4) has been in existence less than five years (although this does not apply to business doing research at a college or university or a tax-exempt organization; 5) is engaged only in competitive edge technology; and 6) is certified by the Michigan Strategic Fund as a "qualified" business.

House Bills 5215 (S-2) and 5216 (S-2)

These bills are designed to accomplish the following: 1) make the income tax and the single business tax consistent with changes enacted to the Michigan Early Stage Venture Investment Act by Public Act 102 of 2005, which established a tax voucher certificate system for investors in the Michigan Early Stage Venture Investment Fund, and 2) increase the total dollar amount of the vouchers that may be issued from \$150.0 million to \$600.0 million. In addition, in any one year, the vouchers used by taxpayers could not exceed 25.0% of the total amount of vouchers issued. House Bill 5215 (S-2) would amend the Single Business Tax Act to allow a taxpayer who has a voucher to use it to pay a single business tax liability and House Bill 5216 (S-2) would amend the Income Tax Act to allow a taxpayer who has a voucher to use it to pay an income tax liability. Under both of these bills, the vouchers could be used to help pay a taxpayer's tax liability for tax years beginning after December 31, 2008. These bills are not tie-barred to the other bills dealing with the securitization package. However, the proposal in House Bill 5215 (S-2) to increase the dollar amount of vouchers that could be issued would occur only if the Michigan Tobacco Settlement Finance Authority were authorized by law to issue bonds, but not sooner than November 1, 2005. In addition, the total amount of tax voucher certificates approved under the Michigan Early Stage Venture Investment Act could not exceed an amount sufficient to allow the Michigan Early Stage Venture Investment Corporation to raise \$450.0 million for the purposes authorized under the Michigan Early Stage Venture Investment Act, but the total amount of all tax vouchers could not exceed \$600.0 million.

Under both of these bills, the amount of the tax voucher used to pay a taxpayer's income or single business tax liability could not exceed the lesser of: 1) the amount of the tax voucher; 2) the amount authorized to be used in the tax year under the terms of the voucher agreement; and 3) the taxpayer's liability due.

Tie-Bars

The bills have the tie-bars shown below:

Bill	Tie-bar
House Bill 5215 (S-2)	None
House Bill 5216 (S-2)	None
House Bill 5109 (H-5)	Senate Bill 533 and House Bills 5047 and 5048
House Bill 5047 (H-11)	Senate Bills 298, 359, 521, 533, 633, and House Bills 4342, 4972, 4973, 5048, 5108, and 5109
House Bill 5048 (H-7)	Senate Bill 533, 633, and House Bills 4342, 4972, 4973, 5047, 5108, and 5109
Senate Bill 533 (H-5)	Senate Bills 298, 359, 521, 633, House Bills 4342, 4972, 4973, 5047, 5048, 5108, and 5109
Senate Bill 359 (S-2)	Senate Bill 533 and House Bills 5047, 5048, and 5109

Senate Bill 298 (S-2)	Senate Bills 533, 664, 665, 666, and 667 and House Bills 5047, 5048, and 5109
Senate Bill 521 (S-2)	Senate Bill 533 and House Bills 5047, 5048, and 5109

FISCAL IMPACT

House Bills 5109 (H-5), 5047 (H-11), and 5048 (H-7); Senate Bills 359 (S-2) and 533 (H-5)

The bills would change the current allocation of the proceeds the State is receiving from the settlement agreement entered into with the major tobacco companies in 1999. Under this settlement agreement, the State receives annual payments from tobacco companies. The amount of the annual payments is based on a complex formula that takes into account cigarette sales and inflation. During FY 2005-06, the State is assuming the settlement payment will equal \$278.0 million. Under current law, the settlement revenue is deposited into the Merit Award Trust Fund and the Tobacco Settlement Trust Fund and is spent pursuant to State appropriations. During FY 2005-06, the majority of the settlement revenue has been appropriated for the Merit Award Scholarship program and the Medicaid program. Actual FY 2005-06 appropriations are shown in Table 7.

Table 7

FY 2005-06 Tobacco Settlement Appropriations (actual dollars)				
Merit Award Trust Fund				
Department/Program	FY 2005-06 Enacted			
Community Health				
Medicaid Base Funding	\$50,300,000			
Education				
Michigan Education Assessment Program	16,359,300			
Higher Education				
Merit Award Scholarships	126,400,000			
Tuition Incentive Program	6,600,000			
Nursing Scholarship Program	4,009,000			
Operations Funding	9,500,000			
Treasury				
Merit Award Board	1,636,800			
Tuition Incentive Program Administration	399,700			
Michigan Education Savings Program	1,000,000			
Information Technology	400,400			
Total Merit Award Trust Fund Appropriations	\$216,596,200			
Tobacco Settlement Trust Fund				
Attorney General				
Legal Services	\$386,800			
Community Health				
Senior Prescription Drug Program	3,900,000			
Nursing Home Personal Needs Allowance	5,000,000			
Senior Respite Care Services	5,000,000			
Medicaid Base Funding	58,100,000			
Total Tobacco Settlement Trust Fund Appropriations	\$72,386,800			
Total Tobacco Settlement Appropriations	\$288,983,000			

In order to obtain \$400.0 million in FY 2005-06 for economic diversification programs, the package would create the Tobacco Settlement Finance Authority, which could sell revenue bonds that would be repaid with a portion of the tobacco settlement revenue. The

repayment schedule would be determined at the time of issuance. Assuming taxable debt would be repaid over a 20-year period beginning in FY 2006-07 at 6.58% interest, debt service payments would be approximately \$40.0 million annually. In FY 2007-08 through FY 2013-14, \$75.0 million of tobacco settlement revenue would be allocated annually to the Michigan 21st Century Jobs Trust Fund for the economic development programs described above, providing an additional \$600.0 million over eight years. Table 8 illustrates the impact that the debt service payments and the tobacco settlement earmarking could have on the amount of tobacco settlement revenue available for disbursement from the Michigan Merit Award Trust Fund.

Table 8

Estimated Tobacco Settlement Allocations Under the Securitization Package (in millions)						
Estimated Estimated Michigan Tobacco Estimated Tobacco Merit Tobacco Settlement Debt Service Settlement Award Settlement						Tobacco Settlement Trust Fund ¹⁾
\$278.0	\$	0.0	\$	0.0	\$216.6	\$72.4
	Estimated Tobacco Settlement Revenue	Estimated Tobacco Settlement Revenue \$278.0 278.0	Estimated Tobacco Settlement Revenue \$278.0 278.0 Under the Securice (in mi) Estimated Debt Service on Bonds \$0.0 40.0	Under the Securitization (in millions) Estimated Tobacco Estimated Tob Settlement Debt Service Settle Revenue on Bonds Earm \$278.0 \$ 0.0 \$ 278.0 \$40.0	Under the Securitization Package (in millions) Estimated Tobacco Settlement Revenue \$278.0 \$ 0.0 \$ 0.0 \$ 0.0 \$ 278.0 \$ 40.0 \$ 0.0	Under the Securitization Package (in millions) Estimated Tobacco Settlement Revenue \$278.0 \$ 0.0 \$ 0.0 \$216.6 278.0 \$40.0 0.0 238.0

The Tobacco Settlement Trust Fund would be repealed by the securitization package.

The bills would appropriate \$400.0 million in FY 2005-06 from the 21^{st} Century Jobs Trust Fund to the Michigan Strategic Fund and \$1.0 million to the proposed Tobacco Settlement Finance Authority for expenditure as shown in <u>Table 9</u>.

Appropriations in Senate Securitization Proposal

Table 9

FY 2005-06 Appropriations in House Bill 5047				
Purpose	FY 2005-06 Amount (in millions)			
Michigan Strategic Fund				
Life Science	\$90.0			
Michigan Forest Finance Authority	26.0			
Defense Contract Coordination Center	10.0			
Van Andel Institute, Good Manufacturing Facility	3.0			
Core Technology Alliance	1.0			
Automotive Technology Business Accelerator	6.0			
Michigan Film Office	2.0			
Technology Transfer, Universities to Private Sector	2.0			
Michigan Promotion Program	15.0			
Agriculture Development Fund	10.0			
Capital Access Program	3.5			
Administrative Costs	Not more than 16.0			
Business Development and Marketing	Not more than 20.0			
Allocations to other programs (investments, loan enhancement,				
small business capital access program, grants and loans for				
competitive edge technology) as determined by the Strategic				
Fund Board	195.5			
Total Appropriation	\$400.0			
FY 2005-06 Appropriation in House Bill 5048				
Tobacco Settlement Finance Authority	\$1.0 GF/GP			

In this example debt service would continue until FY 2025-26. Tobacco settlement revenue would continue annually based on the parameters of the settlement.

House Bill 5109 (H-5) would require that any interest earnings on the Michigan Tobacco Settlement Trust Fund would be deposited into the General Fund. This amount is estimated to be \$12.4 million in FY 2005-06 but would decline in FY 2006-07 and FY 2007-08 due to the reducing balance that would remain in the Trust Fund after the initial allocations were made.

Senate Bill 359 (S-2) would allow the Fund to contract with a person or entity to operate the Michigan Life Sciences Pipeline. The cost of this contract and the revenue stream that would be dedicated to covering that cost are unknown at this time.

House Bill 5048 (H-7) would appropriate \$1.0 million General Fund/General Purpose revenue to the Tobacco Settlement Finance Authority for operating expenses and the creation of a reserve fund. This funding would carry forward if not spent in FY 2005-06. The Authority could employ personnel or contract for services, such as legal, accounting, or technical expertise. The level of compensation for these employees would be set by the board.

The Strategic Fund could by resolution establish fees or penalties associated with participation in its programs, after public hearings, and notice to participants, the Governor, and the Legislature.

Senate Bill 298 (S-2)

The bill could reduce the amount of revenue generated from corporations' fees by \$600,000 to \$3.0 million. This revenue currently lapses to the General Fund if unencumbered. In FY 2005-06, \$18.0 million has been appropriated, exhausting any estimated corporate fee revenue for FY 2005-06 in DLEG. The Department is using these fees, instead of General Fund dollars, to support general operations and administration of the Workers' Compensation unit, the Tax Tribunal unit, and the Michigan Occupational Safety and Health Administration, as well as the administration of the Business Corporation Act.

Senate Bills 664-667, which are tie-barred to Senate Bill 298, would require DLEG to provide electronic filing of records and would create a new expedited filing fee. These new fees could generate approximately \$3.0 million in revenue, which, if enacted, could replace the loss of revenue that would result from the proposed reduction of organization and admission fees paid by corporations.

Senate Bill 521 (S-2)

The fiscal impact cannot be identified because at this time there is no way to estimate the amount of capital gain investors would realize from initial equity investments and how much of this gain they would then reinvest in qualified businesses. The fiscal impact would not occur until the 2007 tax year. This bill would have no direct impact on local government.

House Bills 5215 (S-2) and 5216 (S-2)

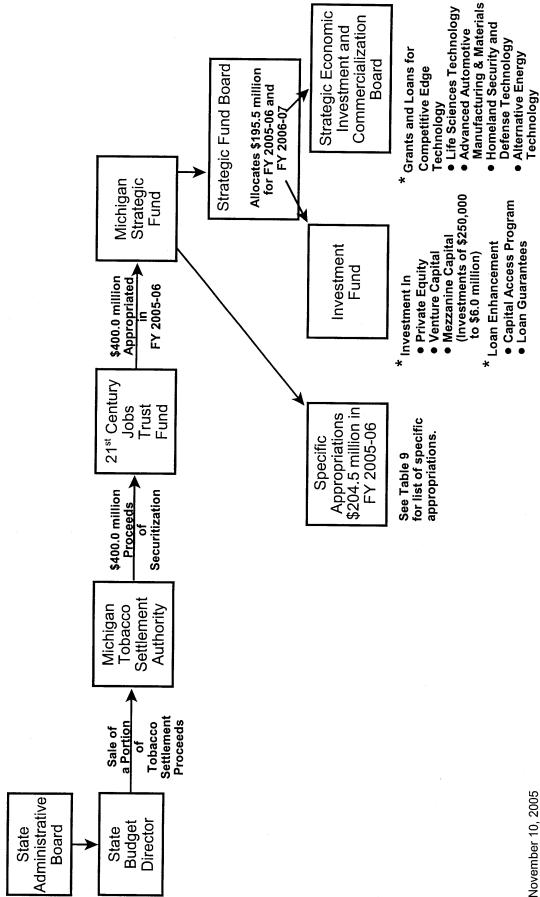
The fiscal impact of these bills cannot be identified because there is no way to make a reasonable estimate of the amount of vouchers that would be issued, although the maximum cost of these bills would be \$600.0 million spread over several years and \$150.0 million in any one given year. These bills would have no direct impact on local government.

Fiscal Analysts: Elizabeth Pratt, Maria Tyszkiewicz, Jay Wortley

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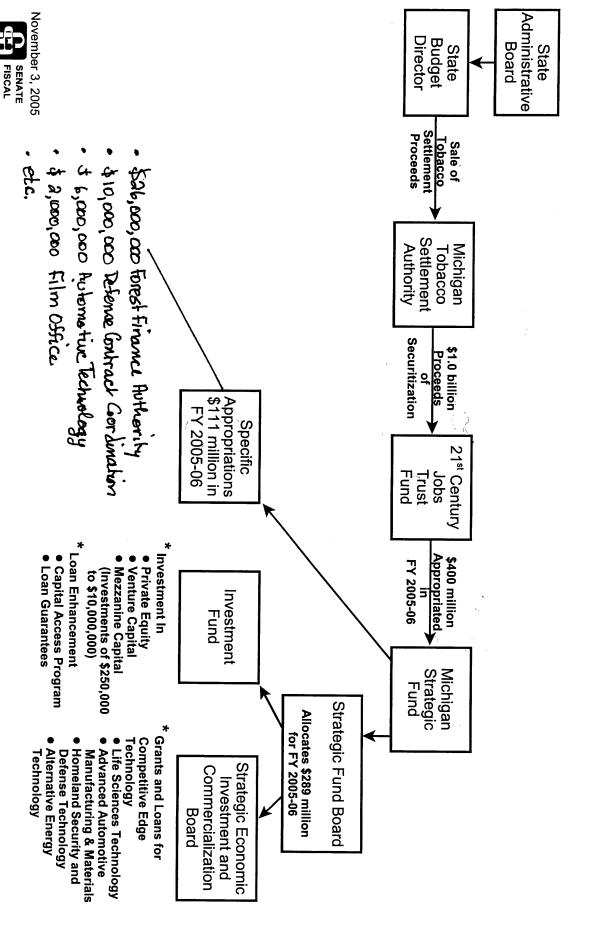
This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

Attachment 1 Attachment 1 Attachment 1 Attachment 1 Attachment 1 Securitization Plan for FY 2005-06 and FY 2006-07



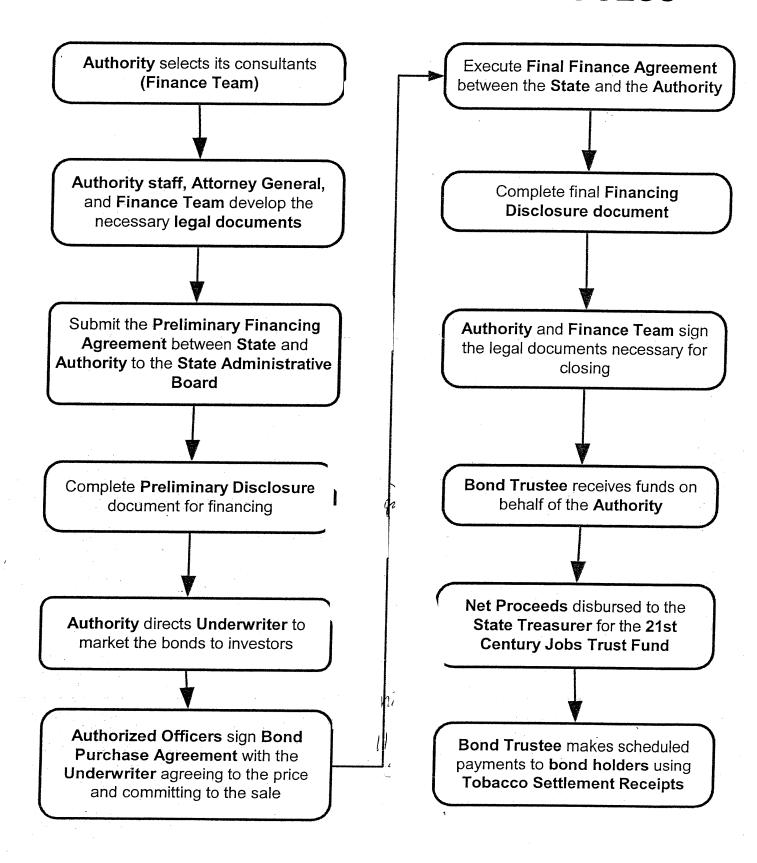


Attachment 1
Illustration of Senate Securitization Proposal



AGENCY

MTSFA BOND ISSUANCE PROCESS



Program Overview



MTFSA

☐ The Michigan Tobacco Settlement Finance Authority ("MTSFA") was established to Agreement (the "MSA") with the major tobacco companies purchase a portion of the State's revenues received under the Master Settlement

☐ The legislation establishing the Authority (Act 226 of 2005, the "Legislation") allows the million (the "Net Proceeds") for a payment which will provide proceeds for the 21st Century Jobs Trust Fund of \$400 Authority to purchase a fixed percentage of Michigan's MSA revenue (the "TSRs") in return

Purchase and Sale of TSRs

□ In order to finance the purchase of the TSRs, the Legislation provides the authorization to sell the State's right to receive the TSRs to the capital markets

☐ The Legislation requires that the sale of the TSRs have no recourse to the State or the Authority

Use of Sale Proceeds

> ☐ Since the 21st Century Jobs Trust Fund has not formally determined the specific allocation of the sale proceeds, the bonds sold by the Authority will be issued as taxable securities to provide maximum flexibility

 \square In the event certain of the Net Proceeds are used for tax-exempt purposes it may be advantageous to the State for the Authority to have the ability to refinance a portion of its bonds in the tax-exempt market

Program Objectives



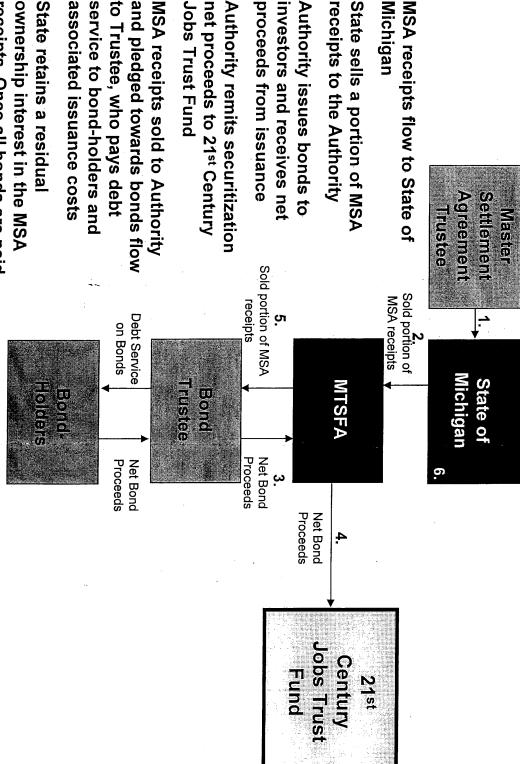
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Transaction Efficiency	Tax Flexibility	Pledge Start Date	% Pledged	Taxable Net Proceeds
□Avoid higher cost alternatives to maximize the State's residual payments	□ Create an efficient mechanism to convert a portion of the bonds to tax-exempt based on ultimate use of proceeds	□ Securitize TSRs beginning with the April 2008 payment	□ Minimize the TSRs pledged (i.e., % of MSA Payments)	□Raise \$400 million of taxable proceeds for the 21st Century Jobs Trust Fund authorized by the Legislation

Tobacco Securitization Process



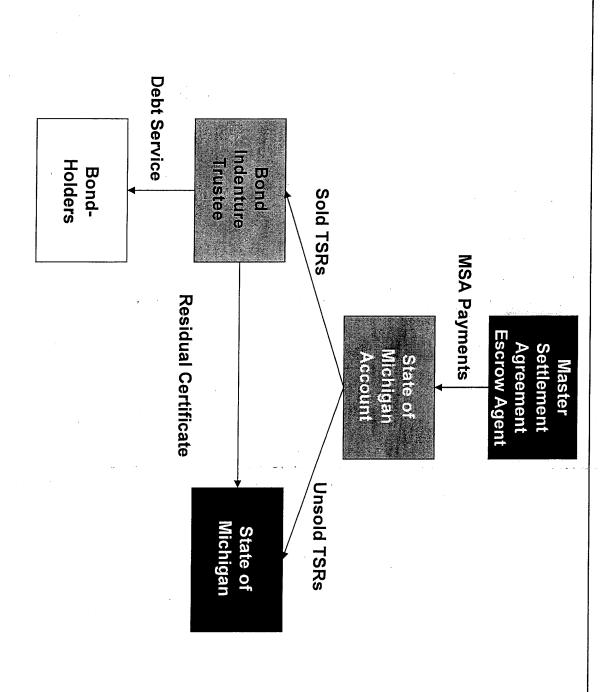


- 'n State sells a portion of MSA
- ယ Authority issues bonds to investors and receives net proceeds from issuance
- Authority remits securitization net proceeds to 21st Century Jobs Trust Fund
- ĊJ associated issuance costs service to bond-holders and and pledged towards bonds flow MSA receipts sold to Authority to Trustee, who pays debt
- <u>ნ</u> State retains a residual off 100% of MSA receipts will ownership interest in the MSA receipts. Once all bonds are paid revert to the State



Flow of MSA Payments After Sale





Tentative Schedule



week of		Wilestones
Late March	•	Final Significant Factor Determination
	•	Board Meeting to Approve Purchase and Sale Agreement
	•	Verification Agent, Printer and Trustee Selected
	•	Consumption Report Distributed
Early April	•	Preliminary Ratings Received
	•	Investor Presentations Finalized
	•	Investor Calls/ Meetings
	•	Discussions with Potential Liquidity Providers
Mid April	•	MTSFA Board Meeting to Approve Delegation Resolution and POC
	•	Finalize and Mail POC
	•	Electronic Roadshow
	•	Investor Calls and Meetings
Early May	•	Price Bonds, Cash Flows Verified, Sign BPA
	•	Receive Liquidity Bids
	•	Mail Final Offering Circular
	•	Finalize Closing Documents
	•	Close

☐ This strategy is designed to protect against any litigation risks that may occur between pricing and ☐ The Bonds are scheduled to price on a Thursday and close on a Wednesday closing

FOREST MANAGEMENT ADVISORY COMMITTEE

October 17, 2005

Purpose of the Committee

- Assist the DNR in balancing environmental, social and economic issues in implementing forest resource responsibilities.
- Provide a mechanism by which interested persons can play an advisory role in the formation of DNR priorities and practices related to forest resource, including:
 - o renewable and non-renewable resource use opportunities.
 - o timber related activities.
 - forest health.
 - o recreation.
 - o biological diversity.
 - o habitat.
- Identify potential long-term threats to forest resources in the State.
- Describe economic and environmental opportunities that are linked with forest resources.
- Address management problems, opportunities and challenges related to public and private forest ownership.
- Provide active participation in the DNR's forest resource planning activities, including forest certification efforts.
- Identify appropriate partnerships with other agencies that impact Michigan's resources.

FOREST MANAGEMENT ADVISORY COMMITTEE

March 24, 2006

Steven Arwood

Owner

Joel Blohm

Operations Manager

William Bobier

President

Lynne Boyd

Chief

William Cook

Forester / Biologist

Leland Crawford

Acquisition & Merchandising Mgr

Thomas Dunn

Assistant Legislative Director

John Fowler

President

Margaret Gale

Dean

Susan Holben

Business Ombudsman

Mark Janke

Consulting Forester

Desmond Jones

Chair

Daniel Keathley

Chairperson

William Manson

Executive Director

Frank Ruswick

Special Assistant to the Director

Warren Suchovsky

Co-Owner

Sam Washington

Executive Director

Gordon Wenk

Director

Frank Wheatlake

Anne Woiwode

State Director

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Great Northern Lumber of MI, LLC, 507 State St., Lincoln 48742 Office: 989-736-6192 FAX: 989-736-6280 Joelgnl@msn.com

Earthscape Resource Mgt. Inc., 318 W. Ottawa St., Lansing 48933 Office: 517-484-4928 FAX: 231-861-2924 Bobier@earthlink.net

DNR Forest, Mineral and Fire Management, P.O.Box 30452, Lansing 48909 Office: 517-373-1246 FAX: 517-373-2443 boydlm@michigan.gov

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Office: 906-786-1575 FAX: 906-786-9370 CookWi@msu.edu

International Paper, W6582 Highway US-2, Norway 49870

Office: 906-563-7524 FAX: 906-563-7515 leland.crawford@ipaper.com

American Motorcyclist Association-District 14, 5010 Stafford Avenue, Lansing 48910-5347

Office: 517-882-3035 FAX: 517-882-3035 TDunn976@yahoo.com

D. T. Fowler Mft. Co., Inc., P.O. Box 70, Lapeer 48447

Office: 810-245-9336 FAX: 810-664-5403 John@DTFowler.com

MTU School of Forest Resources & Environmental Science.

1400 Townsend Drive, Houghton 49931

Office: 906-487-2352 FAX: 906-487-2915 MRGale@mtu.edu

Michigan Economic Development Corporation,

300 N. Washington Square, 4th fl, Lansing 48913

Office: 517-335-2168 FAX: 517-335-0198 HolbenS@michigan.org

2676 111th Avenue, Allegan 49010

Office: FAX: mjanke4@charter.net

Michigan Tree Farm System, 12518 N. Sherman Lk Drive, Augusta 49012

Office: 269-731-5344 FAX: 269-731-5341 marejones@aol.com

MSU Department of Forestry, 109 Natural Resources, East Lansing 48824

Office: 517-355-0093 FAX: 517-432-9150 Keathley@msu.edu

Michigan Snowmobile Association, 4336 Plainfield NE, Grand Rapids 49525

Office: 616-301-2743 FAX: 616-363-0661 billmsa@aol.com

DEQ Executive Division, P.O. Box 30473, Lansing 48909-7973

Office: 517-373-6093 FAX: 517-241-7401 RuswickF@michigan.gov

Suchovsky Logging LLC, N9677 County Road 577, Stephenson 49887 Office: 906-753-6666 FAX: 906-753-6666 WarrenSuchovsky@FastMail.fm

Michigan United Conservation Clubs, 2101 Wood, Lansing 48909

Office: 517-371-1041 FAX: 517-371-1505 Swashington@mucc.org

MDA Environmental Stewardship Division, P.O. Box 30017, Lansing 48909

Office: 517-241-1964 FAX: 517-335-3131 wenkg@michigan.gov

Reed City Power Line Supply, P.O. Box 147, Reed City, 49677

Office: 231-796-5491 FAX: 231-832-4385 frank wheatlake@RCPLS.com

Sierra Club Mackinac (Michigan) Chapter, 109 E. Grand River Avenue, Lansing 48906

Office: 517-484-2372 FAX: 517-484-3108 Anne.Woiwode@sierraclub.org

U.S. FOREST SERVICE ADVISOR

Leanne Marten

Forest Supervisor

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STAFF SUPPORT

Kerry Gray

EAB Restoration Coordinator

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Office: 517-241-1833 FAX: 517-373-2443 grayk@michigan.gov

ECONOMIC ANALYSIS OF POTENTIAL VEGETATIVE MANAGEMENT REGIME INVESTMENTS Scoping of Study Proposal

by Dr. Karen Potter-Witter

> Dr. Larry Leefers Ron Murray

BACKGROUND

The purpose of this project is conduct an economic analysis of vegetative management regimes for forest management on State Forest lands that could offer adequate returns to be attractive investments for the Michigan Forest Finance Authority and that are in line with the Authority's investment goals.

- From 1998-2003, forty three regimes were previously analyzed using growth and yield models and the Quick-Silver economic analysis program (USDA-FS) and found to offer attractive rates (4% or more over and above inflation) for potential investors.
- It is the purpose of this project to update that analysis using existing growth and yield information and updating the costs and revenues in the Quick-Silver analysis, and to re-assess the economic aspects of these and other potential investment opportunities on State Forest lands.
- The Authority will use the results of this analysis to make decisions about future analyses and current and future investment decisions.
- While this analysis will be confined to State Forest lands, it will provide information that will be valuable to private forest managers in the state as well.

STATE REQUIREMENTS

The State will provide the vendor with the *case* studies, and all other pertinent data and documents used in prior analyses. Mr. Ronald Murray, State Forester for the Michigan Forest Finance Authority, who conducted the prior analysis will be available for consultation and will provide the primary contact for the vendor with the Authority and the DNR.

SCOPE OF WORK AND DELIVERABLES

The vendor will update the cost and revenue figures in these studies and re-run the analysis using the current version of the Quick-Silver program, Version 5.004.45 or newer. Each analysis will have a full description of the analysis and notes related to the assumptions used and other pertinent details of the particular case study. Quick-Silver is a free program that is downloadable from the USDA-FS website. Some case studies have been re-run in this version of the program from 2001 to 2003, but some cases are still in the old format and otherwise outdated.

All cases need current costs and revenues applied to them. There are several sources of this information that will be available to the vendor. These include timber sale stumpage price reports, updated quarterly; cost records for tree planting; cost studies on various forestry activities; and revenue records for timber sales. In the analysis, the vendor will fully describe each regime analyzed including all assumptions and sources of data (and other metadata).

In addition, the vendor will be required to use the Operations Inventory (available through the DNR) and IFMAP program (a GIS-based forest inventory program available through the DNR) to assess the current availability of each investment opportunity over the State Forest system. Availability of opportunities for the next 10 years will also be assessed on the basis of current State Forest plans and compartment review decisions. The results of this analysis will be reported both in a narrative and in a GIS format in IFMAP showing locations, size, and distribution of potential investment sites. Lands not yet inventoried in IFMAP can be displayed in IFMAP using and Enterprise GIS (also available for this study through the DNR). To use the IFMAP program, the vendor must sign a non-disclosure agreement stating that he (she) will not disclose any proprietary information about the program that may be discovered during the use.

The results of these analyses will be reported by the vendor to the DNR and the Michigan Forest Finance Authority in the standard Quick-Silver report format showing clearly labeled transactions and economic parameters input and all pertinent output variables for each case. This is to include the Quick-Silver Project Description, Transactions List, and Economic Returns reports. In addition, a written report analyzing the results obtained and making recommendations for potential investments and further analyses will be prepared and presented along with an oral presentation to the Michigan Forest Finance Authority Board of Directors and the DNR.

OUT OF SCOPE

The vendor may use current growth and yield estimates made by the DNR and is not responsible for making new estimates of these variables for this study. However, if the vendor decides for some reason that new growth and yield estimates are beneficial, the DNR will not prevent their development and use. The vendor must disclose to the DNR that such changes are being made and report the methods, models, and techniques that are proposed to be used. The DNR reserves the right to review and approve the methods, models, and techniques used in such activities. If such activities are undertaken, the vendor will provide any hardware, software, or other tools, materials, or supplies needed to perform the work. Costs passed on to the DNR for such tools, materials, or supplies will be approved prior to their purchase, if they exceed the cost of this contract or are to remain with the vendor upon completion of the contract.

Vendor is not expected to provide investment decisions, or to choose between alternative investments, but simply to provide the alternatives and options as well as an analysis of the range of economic advantages, or disadvantages, of one option in comparison to another.

CONTRACTOR REQUIREMENTS

The contractor will provide all necessary computer tools and equipment to run Quick-Silver, Operations Inventory, and IFMAP. In addition, the contractor will provide vehicles, telephones, office space, and office supplies as needed to complete the project.

DELIVERABLES

Deliverables include:

- 1. a full set of updated case studies covering all of the regimes in the original study in Quick-Silver Version 5.004.45 or newer format showing:
 - a. full case descriptions, including the Project Description reports

- all assumptions on which the case is based, including the Transactions Lists reports
- c. metadata about data sources
- 2. A full report upon completion of the project including:
 - a. Discussion of all cases
 - i. Assumptions upon which the case was based
 - ii. Special conditions identified, or noted
 - iii. Full description of the case
 - iv. Economic parameters and outcomes for the case, including the Economic Returns reports
 - v. Risks associated with investments in the regime
 - b. Ranking of regimes by economic outcomes
 - i. opportunities for investment for each regime
 - 1. Geographic distribution of
 - a. total acreage available currently
 - b. acreage available within the next decade
 - c. Discussion of the economic implications of the findings
 - i. To job creation locally and statewide
 - ii. To local communities and economies
 - iii. To statewide economic initiatives
 - iv. To the biological health and protection of the forest resource
 - v. To current markets
 - vi. To emerging markets
 - vii. Other pertinent observations
 - d. Recommendations for future, or further investigations
 - i. List and provide initial scoping comments regarding further research/analysis needs
 - e. Recommendations to assist the Authority in making investment decisions
 - i. Identify and discuss the most productive regimes economically
 - ii. Identify and discuss the risks that are associated with each regime
 - iii. Identify and discuss the probability of success associated with each regime

CONTRACT COMPLIACE INSPECTOR

Mr. Ronald Murray, State Forester for the Michigan Forest Finance Authority, who conducted the prior analysis will be available for consultation and will provide the primary contact for the vendor with the Authority and the DNR. Other state staff will be assigned to participate as needed.

PROJECT PLAN, DIRECTION, AND OVERSIGHT

The MFFA/DNR contract compliance inspector shall meet with the vendor within 10 days of the award of the contract to provide initial direction and discuss an overall project plan. At that time, old analyses will be supplied by the DNR, plans will be mutually agreed upon as to how, when, and where to get cost and revenue data. Project status meetings will occur no less than monthly. At each meeting, the vendor will supply a brief written summary of the status of the project to date and make a brief oral presentation summarizing progress and identifying problems, or potential difficulties. More frequent meetings will be scheduled, if appropriate.

REPORTS

Reports will include:

- 1. Monthly (or more frequent if requested) summaries of progress. These may be brief, but must be substantive and clearly show progress made and problems encountered or anticipated. Oral summaries will also be required.
- 2. Project summary report due at the end of the project. The results of these analyses will be reported by the vendor to the DNR and the Michigan Forest Finance Authority in the standard Quick-Silver format showing all pertinent variables for each case. In addition, a written report analyzing the results obtained and making recommendations for potential investments and further analyses will be prepared and presented along with an oral presentation to the Michigan Forest Finance Authority Board of Directors and the DNR.
- 3. All reports will include a paper copy and electronic copy in Word 97-2002.

COMPENSATION AND PAYMENT

This is a fixed price deliverable contract. Award will be made based on the best value received from a combination of vendor qualification, proposed delivered products, and price. Payment will be made upon completion of deliverable 1 above and deliverable 2 above. Bids will be received on the basis of separate prices for deliverable 1 and deliverable 2, but the award will not be split between vendors.

MFFA TIMBER & MARKETS SUBCOMMITTEE March 30, 2006

Members Present: Paul Eisele, Chair; Kelvin Smyth;

Others Present: Ron Murray

Economic Analysis of Vegetative Management Regimes

Ron Murray provided a general overview of the Quick-Silver economic analysis program and answered questions from members. Ron discussed the importance of having a new, updated analysis on which to base investment. Ron discussed reasons why the former analysis might not be adequate for making current investments. Karen Potter-Witter and Larry Leefers, MSU, have been approached about collaborating on a scoping of the needed study. Karen & Larry will meet with Ron on April 3, 2006 to develop a scoping and possibly and RFP for such a study.

After further discussion, it was moved by Paul Eisele and seconded by Kelvin Smyth to have the scoping of the analysis conducted as quickly as possible under the auspices of the Subcommittee.

Paul expressed concern, supported by Kelvin that the Red Pine Project regimes from the Working Forests for the 21st Century spreadsheet be given priority in an effort to be prepared should the 21st Century Jobs Fund money become available soon. Paul expressed a desire that the Working Forests sheet be updated and built upon after each meeting.

Another concern expressed was the ability to allocate revenues to the appropriate funding source. Ron said that would be a requirement of the contract to lay out the procedures for this and other accounting and economic procedures.

Ron will report to the Subcommittee after that first meeting, but before the next Board meeting, regarding the results.

The Subcommittee reviewed information obtained from the Biofuels and Wood Products Conference II, brought back by Cara Boucher, Forest Resource Management Section Manager, DNR, FMFM, who attended the conference. This national conference, held March 14-16, 2006, brought together representatives from some of the most progressive researchers, government officials, and industries in the field. The electronic copies of the presentations had many exciting revelations about wood in this industry.

Conclusions by the Subcommittee members included:

- Two scales of operations are related to the type of fuel being created and the source of furnish. Large industrial complexes tend to be more related to production of the higher quality biofuels, while smaller, more local installations are more beneficial for production of lower quality fuels and burning wood directly. The former is exemplified by bioethanol and the latter by fuels for schools, biodiesel production, etc.
- Costs of fuels produced from wood are slightly more than for that from corn, but run in the \$2-\$3 range.
- Almost any type of wood can be used. Much more of the tree can be utilized making the
 volumes removed per acre potentially much higher than in typical logging operations.
 Care is needed to avoid removing too much biomass, thus creating problems with
 coarse woody debris, etc.

- Burning wood directly has potential environmental problems. Permitting larger or numerous facilities may be a problem. Past issues with Michigan companies were discussed. It seems that there may be a need for policy changes, if this type of woodusing energy were to be widely implemented in Michigan. Modern boiler technology may improve this situation. The Subcommittee should look into this technology. Typically, as one moves from burning wood to liquid fuel to gas, one moves from dirty technology to clean technology. Similarly, there is a difference between burning wood and burning wood waste. The latter typically contains more contaminants.
- Paul and Kelvin made the point that this conference was a government-sponsored event. It would be well for someone from the Subcommittee to attend an industrysponsored event to get a different perspective. In particular, something related to new wood boiler technology, or multiple fuel systems, systems burning clean and "dirty" fuels, and dry vs. wet fuels could be very instructive.
- It was also observed that there are, or may be, barriers to these installations that may be more related to business, or politics, than to science. The Enron Scandal has brought extra scrutiny to energy industries.

There is a need for the Great Lakes Forest Economic and Social Perspective to be presented to the Board soon. Local variables may play a big role in what is possible and what is not. More background is needed to properly assess the market potential.

The Department of Natural Resources is trying to document wood-burning/using facilities in the State. A biodiesel facility in Gladstone and an operation by Crystal Flash in west Michigan, Northern Michigan and Central Michigan Universities were mentioned by Paul and Kelvin. Paul and Kelvin will try to get and communicate more details. Also, a slash bundler operation known to Kelvin was also mentioned. Kelvin will get more details.

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(LODGING) TRAVEL AGENT CONFIRMATION NUMBER(S):

Form W-9

(Rev. January 2002)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

Give form to the requester. Do not send to the IRS.

	Name		!
e 2.	Name		
on page	Business name, if different from above		
Print or type Instructions	Check appropriate box: ☐ Individual/ Sole proprietor ☐ Corporation ☐ Partnership ☐ Other ▶		Exempt from backup withholding
Print o	Address (number, street, and apt. or suite no.)	Requester's name and a	ddress (optional)
P Specific	City, state, and ZIP code		
See S	List account number(s) here (optional)		
Part	Taxpayer Identification Number (TIN)		
Howev	your TIN in the appropriate box. For individuals, this is your social security number (SSN). Yer, for a resident alien, sole proprietor, or disregarded entity, see the Part I instruction. For other entities, it is your employer identification number (EIN). If you do not have a number to get a TIN on page 2.	Social secur ons on mber,	ity number -
Note: to ente	If the account is in more than one name, see the chart on page 2 for guidelines on whose er.	number Employer ide	entification number
Part	II Certification		——————————————————————————————————————

- Under penalties of perjury, I certify that:
- 1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
- 2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
- 3. I am a U.S. person (including a U.S. resident alien).

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. (See the instructions on page 2.)

Sign Here U.S. person ► Date ►

Purpose of Form

A person who is required to file an information return with the IRS must get your correct taxpayer identification number (TIN) to report, for example, income paid to you, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to give your correct TIN to the person requesting it (the requester) and, when applicable, to:

- Certify the TIN you are giving is correct (or you are waiting for a number to be issued),
- 2. Certify you are not subject to backup withholding, or
- 3. Claim exemption from backup withholding if you are a U.S. exempt payee.

If you are a foreign person, use the appropriate Form W-8. See Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Note: If a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9. What is backup withholding? Persons making certain payments to you must under certain conditions withhold and pay to the IRS 30% of such payments after December 31, 2001 (29% after December 31, 2003). This is called "backup withholding." Payments that may be subject to backup withholding include interest, dividends, broker and barter exchange transactions, rents, royalties, nonemployee pay, and certain payments from fishing boat operators. Real estate transactions are not subject to backup withholding.

You will **not** be subject to backup withholding on payments you receive if you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return.

Payments you receive will be subject to backup withholding if:

- 1. You do not furnish your TIN to the requester, or
- 2. You do not certify your TIN when required (see the Part II instructions on page 2 for details), or
- 3. The IRS tells the requester that you furnished an incorrect TIN, or
- **4.** The IRS tells you that you are subject to backup withholding because you did not report all your interest and dividends on your tax return (for reportable interest and dividends only), or

5. You do not certify to the requester that you are not subject to backup withholding under 4 above (for reportable interest and dividend accounts opened after 1983 only).

Certain payees and payments are exempt from backup withholding. See the instructions on page 2 and the separate Instructions for the Requester of Form W-9.

Penalties

Failure to furnish TIN. If you fail to furnish your correct TIN to a requester, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

Civil penalty for false information with respect to withholding. If you make a false statement with no reasonable basis that results in no backup withholding, you are subject to a \$500 penalty.

Criminal penalty for falsifying information. Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

Misuse of TINs. If the requester discloses or uses TINs in violation of Federal law, the requester may be subject to civil and criminal penalties.

DEPARTMENT OF MANAGEMENT AND BUDGET, VEHICLE AND TRAVEL SERVICES (VTS) SCHEDULE OF TRAVEL RATES FOR CLASSIFIED and UNCLASSIFIED EMPLOYEES **EFFECTIVE January 1, 2006**

MICHIGAN SELECT CITIES * Meals and Lodging	
Lodging**	\$65.00
Breakfast	8.75
Lunch	8.75
Dinner	21.00
<i>S</i> milot	21.00
IN-STATE ALL OTHER	
Meals and Lodging	
Lodging **	\$65.00
Breakfast	7.25
Lunch	7.25
Dinner	16.50
Per Diem	^
Total Per Diem	\$76.50
Lodging	45.50
Breakfast	7.25
Lunch	7.25
Dinner	16.50
Group Meetings	
Lodging**	\$65.00
Breakfast	7.25
Lunch	10.25
Dinner	16.50
OUT-OF-STATE SELECT CITIES * Meals and Lodging	
Lodging **	Contact Spartan Travel for reservations
Breakfast	11.00
Lunch	11.00
Dinner	22.00
OUT-OF-STATE ALL OTHER	
Meals and Lodging	
Lodging **	Contact Spartan Travel for reservations
Breakfast	8.75
Lunch	8.75
Dinner Pierre	20.50
Per Diem Total Per Diem	#92.50
	\$83.50
Lodging Breakfast	45.50
Lunch	8.75
Dinner	8.75
Dinner	20.50
Incidental Costs Per Day (with overnight stay)	\$2.00
MILEAGE RATES	
Premium Rate Approved Private Vehicle	\$.445 per mile
	-
Standard Rate (State's Mid-Sized Car Cost)	\$.328 per mile

See select cities listing. Lodging available nightly at State rate, or call the contracted travel agency.